

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2007 First Round Cycle
June 6, 2007

Project Number CA-2007-005

Project Name Essex Apartments
Site Address: 44916 North 10th Street West
Lancaster, CA 93534 County: Los Angeles Census Tract: 9008.06

Applicant Information

Applicant: How About Them Apples, L.P.
Contact: Mr. Scott Williams
Address: 17207 Ventura Boulevard
Encino, CA 91316
Phone: (818) 789-5550 Fax: (818) 304-7660 email: swilliams@insitedevelopment.com
General Partners Type: Joint Venture

Information

Set-Aside: SRO
Housing Type: SRO
Geographic Area: Los Angeles

Eligible Basis

Requested: \$14,701,500
Actual: \$14,701,500
Maximum Permitted: \$19,654,065

Adjustments to Threshold Basis Limit:

3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features
Region Where Development Costs Frequently Exceed Published Limit

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,554,566	\$0
Recommended:	\$1,554,566	\$0

Project Information

Construction Type: Rehabilitation
Federal Subsidy: None
Total # of Units: 150
Total # Residential Buildings: 1

Income/Rent Targeting

Federal Set-Aside Elected: 40%/60%
% & No. of Tax Credit Units: 100% - 149 units
Average Affordability of SRO Project: 40%
Breakdown by %: 10% @ 30%, 50% @ 40%, 20% @ 45%

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency/Credit Reduction/Public Funds Maximum of 20 points	20	20	20
<input checked="" type="checkbox"/> Cost Efficiency	18	18	18
<input checked="" type="checkbox"/> Credit Reduction	20	2	2
Owner / Management Characteristics Maximum of 9 points	9	9	8
<input checked="" type="checkbox"/> General Partner Experience	6	6	5
<input checked="" type="checkbox"/> Management Experience	3	3	3
Housing Needs Maximum of 10 points	10	10	10
Site Amenities Maximum of 15 points	15	15	15
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
<input checked="" type="checkbox"/> Within ½ mile of public library	2	2	2
<input checked="" type="checkbox"/> Within ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce	4	4	4
<input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital	3	3	3
Service Amenities Maximum of 10 points	10	10	10
<input checked="" type="checkbox"/> High speed internet service provided in each unit	5	5	5
<input checked="" type="checkbox"/> Bona fide service coordinator available	5	5	5
Neighborhood Revitalization Maximum of 9 points	9	9	9
Sustainable Building Methods Maximum of 8 points	8	8	8
<input checked="" type="checkbox"/> Rehabilitation project that increases energy efficiency 25% above existing efficiency	4	4	4
<input checked="" type="checkbox"/> Energy star rated ceiling fans in bedroom/living room; whole house fan; economizer	2	2	2
<input checked="" type="checkbox"/> Flow restrictors for kitchen & bath faucets or water-saving fixtures	1	1	1
<input checked="" type="checkbox"/> Minimum 1 High Efficiency Toilet (1.3 gpf) or dual flush	2	2	2
Lowest Income Maximum of 52 points	52	52	52
<input checked="" type="checkbox"/> Basic Targeting	50	50	50
<input checked="" type="checkbox"/> Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed Maximum of 20 points	20	20	20
State credit substitution Maximum of 2 points	2	2	2
Total Points	155	154	154

Tie-Breaker Information

Tie-Breaker Categories Apply to this Project: **No**

First: Housing Type **SRO**

Second: Maximum Neighborhood Revitalization Points/Federal Designated Area **Yes**

Third: Calculated Ratio per Regulation 10325(c)(12) **85.999%**

<u>Unit Type & Number</u>	<u>2006 Rents for 1st Round 2007 % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
15 Studio	30%	\$364
100 Studio	40%	\$485
34 Studio	45%	\$545
1 Studio	Manager's Unit	\$654

The general partners or principal owners are InSite Development and Housing Corporation of America.

The project developer is InSite Development LLC.

The management agent is Ironwood Property Management.

The market analyst is Market Insights.

The Local Reviewing Agency, the City of Lancaster, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: \$19,590,203 Per Unit Cost: \$130,601 Construction Cost Per Sq. Foot: \$79

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
East West Bank	\$7,500,000	ARCS Commercial Mortgage	\$2,500,000
Owner Equity	\$1,000,000	Owner Equity	\$1,000,000
Deferred Developer Fee	\$1,400,000	Deferred Developer Fee	\$700,000
Investor Equity	\$9,690,203	Investor Equity	\$15,390,203
		TOTAL	\$19,590,203

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$14,701,500
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis Credit Reduction (2%)	\$382,239
Qualified Basis (Rehabilitation):	\$18,729,711
Applicable Rate:	8.30%
Maximum Annual Federal Credit, Rehabilitation:	\$1,554,566
Total Maximum Annual Federal Credit:	\$1,554,566
Total State Credit:	\$0
Approved Developer Fee in Project Cost	\$1,400,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Tax Credit Factor: Alliant	\$0.99000

Applicant requests and staff recommends annual federal credits of \$1,554,566, based on a qualified rehabilitation basis of \$18,729,711 and a funding shortfall of \$15,390,203.

Cost Analysis and Line Item Review

The requested eligible basis \$14,701,500 is below TCAC's threshold basis limit \$19,654,056. The basis limit was increased by the following extraordinary features: projects that are located in regions where development costs frequently exceed the published limit and the adjustment for projects with 3 or more energy efficiency/resource conservation/indoor air quality items for exceeding Title 24 by at least 15%, using tank less water heaters, a high efficiency condensing boiler (92% AFUE or greater), or a solar thermal domestic hot water pre-heating system, and using natural linoleum/ceramic tile/natural rubber for all kitchens and bathrooms where no VOC adhesives or backing is used. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitations.

Annual operating expenses meet the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one.

Staff has calculated federal tax credits based on **8.30%** of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Special Issues/Other Significant Information: None

Legal Status: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Recommendation: Staff recommends that the Committee make a preliminary reservation of tax credits, in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal/Annual: \$1,554,566

State/Total: \$0

Standard Conditions

An application for a carryover allocation must be submitted by **October 31, 2007**, as required by regulation section 10328(d), together with the applicable allocation fee and all required documentation. The time for meeting the "10%" test and submitting related documentation will be no later than six (6) months after the date of the executed carryover allocation (as defined by IRC Section 42 and IRS Notices). The applicant must ensure the project meets all Additional Threshold Requirements for the housing type of the proposed project.

The applicant must submit all documentation required for a Final Reservation no later than February 1 of the year that the building(s) must be placed in service pursuant to Section 42(h)(E)(i) of the Internal Revenue Code of 1986, as amended. The applicant shall provide the Committee a Final Reservation application providing the documentation for the project set forth in Section 10322(i)(1) of these regulations. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a performance deposit and allocation fee calculated in accordance with regulation. The performance deposit must be paid by cashier's check within 20 calendar days of any preliminary reservation. The allocation fee must be paid within a time period specified in the preliminary reservation letter. The allocation fee will be due prior to execution of a carryover allocation or issuance of tax forms, whichever comes first. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount **of federal credit shown** above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of ten years and at no cost to the tenants.

Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(8) at project completion.

Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2)(P) at project completion.

Additional Conditions:

Applicants that received 20 points for readiness to proceed must meet ALL of the following requirements. The applicant must be ready to begin construction within 150 days of the Credit Reservation which is **November 2, 2007**, as evidenced by submission, within that time of, recorded deeds of trust for all construction financing, payment of all construction lender fees, issuance of building permits and notice to proceed delivered to the contractor. Failure to meet this timeline will result in rescission of the Credit Reservation.

Project Analyst: Jack Waegell